

STATE WATER RESOURCES CONTROL BOARD
FOURTH WORKSHOP FOR THE
SAN FRANCISCO BAY/SACRAMENTO-SAN JOAQUIN DELTA ESTUARY

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE BOARD:

MY NAME IS BOB DURGAN, AND I AM DIRECTOR OF PUBLIC AFFAIRS FOR KELCO, DIVISION OF MERCK & CO., INC.; 8355 AERO DRIVE; SAN DIEGO, CALIFORNIA.

AS SOME BACKGROUND:

KELCO WAS FOUNDED IN 1929 IN SAN DIEGO. IT IS THE LEADING GLOBAL SUPPLIER OF ALGINATES AND XANTHAN GUM WHICH ARE KNOWN AS HYDROCOLLOIDS OR SPECIALTY CHEMICAL INGREDIENTS. ALGINATES ARE DERIVED FROM THE KELP BEDS WHICH KELCO HARVESTS OFF THE COASTS OF CENTRAL, SOUTHERN AND BAJA CALIFORNIA.

A PIONEER IN BIOTECHNOLOGY, KELCO ALSO PRODUCES BIOGUMS SUCH AS XANTHAN GUM WHICH ARE MADE FROM FERMENTATION. BOTH THE ALGINATES AND BIOGUMS ARE USED IN A WIDE RANGE OF APPLICATIONS RANGING FROM FOOD AND DAIRY PROCESSING TO PHARMACEUTICAL USES TO DRILLING FOR OIL AND GAS EXPLORATION.

TODAY, KELCO EMPLOYS 590 WORKERS IN SAN DIEGO WITH AN ANNUAL PAYROLL OF \$37,000,000. TOTAL ANNUAL PURCHASES FOR OUR CALIFORNIA PLANT ARE IN THE NEIGHBORHOOD OF \$28,000,000.

KELCO IS ALSO THE LARGEST INDUSTRIAL WATER USER IN SAN DIEGO COUNTY CONSUMING 2,400,000 GALLONS PER DAY OF FRESH WATER AS WELL AS 9,000,000 GALLONS PER DAY OF RECYCLED WATER. BECAUSE WATER IS SO CRUCIAL TO OUR OPERATIONS, A \$2,000,000 PROGRAM BEGUN IN 1988 HAS RESULTED IN OVERALL WATER REDUCTIONS OF 25%. OUR INCENTIVES FOR SAVING WATER INCLUDED REDUCING OPERATING COSTS AND CONTRIBUTING POSITIVELY TO THE STATE'S WATER PROBLEM. THERE WERE AND ARE NO REBATES OR INCENTIVES THAT ENCOURAGE BUSINESSES TO INVEST IN REDUCING WATER USAGE IN CALIFORNIA.

WITH INCREASING GLOBAL COMPETITION EMERGING FROM COUNTRIES SUCH AS CHINA, JAPAN, FRANCE AND NORWAY, THE ISSUE OF FUTURE RELIABILITY AND COSTS OF WATER BECOME CRITICAL TO KELCO'S SUCCESS AND FUTURE IN CALIFORNIA. TODAY WE HAVE PRODUCTION FACILITIES IN PENNSYLVANIA, AND OKLAHOMA AS WELL AS THREE PLANTS IN THE UNITED KINGDOM. IN 1977 KELCO HAD ONLY ONE U.S. MANUFACTURING FACILITY WHICH WAS IN SAN DIEGO. CERTAINLY IT IS DIFFICULT TO IMAGINE ANY KELCO EXPANSION IN SAN DIEGO IN LIGHT OF THE CURRENT ENVIRONMENT.

ON A MORE POSITIVE NOTE, FOLLOWING ARE SOME RECOMMENDATIONS WE WOULD LIKE YOU AND YOUR BOARD TO CONSIDER.

AN EMPHASIS SHOULD BE PLACED ON ANALYZING THE BAY/DELTA IMPACT ON THE URBAN ECONOMY. IN CALIFORNIA, URBAN AREAS OF THE STATE ARE RESPONSIBLE FOR PROVIDING OVER \$600 BILLION (80%) OF THE STATE'S \$750 BILLION GROSS PRODUCT AND 90 PERCENT OF ITS TOTAL EMPLOYMENT. THEREFORE, WE FEEL, THE STATE MUST ESTABLISH A WATER PLAN WHICH FOCUSES ON MARKET DEMAND.

IN ADDITION, THE FUTURE HEALTH OF CALIFORNIA'S ECONOMY CANNOT WAIT AND REQUIRES THE ESTABLISHMENT OF REASONABLE STANDARDS THIS YEAR. THE STATE MUST WORK WITH THE FEDERAL AGENCIES TO DEVELOP IMMEDIATE STANDARDS AND A COMPREHENSIVE MULTISPECIES PLAN THAT ADDRESSES THE MULTITUDE OF FACTORS AFFECTING THE HEALTH OF THE ESTUARY.

DUE TO THE CRITICAL NATURE OF WATER AVAILABILITY FOR MANUFACTURERS, FLEXIBLE WATER TRANSFERS ARE NECESSARY AND ESSENTIAL TO MANAGE SHORTAGES WITH MINIMAL ECONOMIC IMPACT. FINALLY, WE BELIEVE THAT THE IMPLEMENTATION OF THE BURDEN OF STANDARDS SHOULD BE SHARED BY ALL UPSTREAM, DOWNSTREAM AND BAY-DELTA WATER USERS.

THANK YOU VERY MUCH.

7/13/94